



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

In the Matter Of:

Application of the National Council on
Compensation Insurance for a Change
in Advisory Pure Premiums and a Change
in Assigned Risk Rates for Workers'
Compensation Insurance

X

Docket No. PC 05-111

X

ORDER

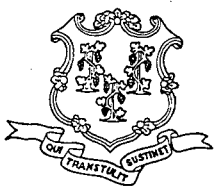
I, Susan F. Cogswell, Insurance Commissioner of the State of Connecticut, do hereby adopt the findings and recommendations of Thomas J. Taggart, Hearing Officer in the captioned matter, TO WIT:

- A. The overall cost level changes for advisory loss costs and assigned risk rates filed by the National Council on Compensation Insurance ("NCCI") are approved as filed.
- B. The assigned risk rates are approved.
- C. The proposed minimum premium multiplier of 300 is approved.
- D. The proposed increase in the maximum minimum premium is changed from a maximum of \$1000 to \$850.
- E. The proposed Workers' Compensation Commission industrial classification assessment fund rate of 1.8% and "F" industrial classification assessment fund rate of 7.2% for voluntary market and assigned risk market insurers, for policies effective on or after January 1, 2006 are approved.
- F. For filings received prior to January 1, 2006, the thirty (30) day advance filing requirement set forth in Conn. Gen. Stat. §38a-676(b) is waived pursuant to that section to allow for the adoption of the advisory pure premium change effective January 1, 2006.

This order is effective from the date of this order.

Dated at Hartford, Connecticut this 8th day of December ~~November~~ 2005.


Susan F. Cogswell
Insurance Commissioner



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MEMORANDUM OF FINDINGS AND RECOMMENDATION

I. INTRODUCTION

The National Council on Compensation Insurance (NCCI) on October 3, 2005 submitted a workers' compensation insurance filing for Advisory Pure Premiums and Assigned Risk Rates pursuant to Conn. Gen. Stat. §38a-665(a). The Insurance Department held a public hearing on Friday, November 18, 2005 to consider the filing. In accordance with the authority granted by Conn. Gen. Stat. §38a-16, it was in the public interest to hold a public hearing on this filing to aid in the Department's determination of compliance with standards for the making and use of rates contained in Conn. Gen. Stat. §38a-665 and to allow for public comment. Insurance Commissioner Susan F. Cogswell appointed the undersigned to serve as hearing officer in this matter.

NCCI's filing for voluntary market pure premium loss costs and assigned risk plan rates is proposed to be effective January 1, 2006. The filing proposes revisions of the current loss costs and assigned risk rates which were approved effective January 1, 2005. NCCI proposes an overall +0.8% change for pure premium loss costs and an overall +1.7% change in assigned risk rates. Changes to individual classification costs have been limited to 20% plus or minus the industry group change.

II. FINDINGS

After reviewing the exhibits entered into the record of this hearing and the presentations given at the hearing, utilizing the Insurance Department's experience, technical competence and specialized knowledge, the undersigned makes the following findings of fact:

1. The proposed change in Advisory Loss Costs reflects the following pure premium level changes:

Industry Group	Voluntary Market Pure Premium Loss Cost Change (%)
Manufacturing	+1.0
Contracting	-4.5
Office & Clerical	+2.1
Goods & Services	+2.2
Miscellaneous	+6.4
Overall Change	+0.8

2. The proposed change in Assigned Risk Market Rates reflects the following rate level changes:

Industry Group	Assigned Risk Plan Rate Change (%)
Manufacturing	+2.4
Contracting	-3.2
Office & Clerical	+3.5
Goods & Services	+3.6
Miscellaneous	+7.9
Overall Change	+1.7%

3. The components of the Advisory Loss Costs and Assigned Risk Market Rates changes are comprised of the following elements:

Component	Pure Premium Voluntary Market Change	Assigned Risk Premium Level Change
Experience, Trend and Benefit	+1.3	+1.3
Loss Adjustment Expenses	-0.5	--
Expenses	--	-1.1
Uncollectible Premium Provision	--	+2.0
Rate Offset for Change in MPM & Max		-0.5
Overall Change	-0.8%	+-1.7%

4. The assessments due from employers for funding the cost of the Workers' Compensation Commission are 2.86% of losses. These assessments are passed through to employers by insurance carriers. For the Voluntary Market and the Assigned Risk Market, the assessment rate converted to a percentage of premium is 1.8% of standard premium. The Assessment rate for "F" classifications, which provides for coverage under the United States Longshore and Harbor Workers' Compensation Act and its extensions, is changing to 14.9% of total losses, with a proposed assessment on assigned risk standard premium and voluntary market standard premium of 7.2%.
5. The filing for the Assigned Risk Market proposes a 2% provision for uncollectible premium.
6. The filing proposes to increase the minimum premium multiplier from 245 to 300.
7. The filing proposes to increase the maximum minimum premium from \$750 to \$1000.
8. The filing proposes to use essentially the same ratemaking methods used for last year's filing to determine overall change levels and individual classification loss costs and rates. As with previous filings, changes to individual class loss costs are limited to 20% above and below the overall change in loss costs of the industry groups.
9. The proposed Permissible Loss Ratio (PLR) for the Assigned Risk Rate filing is 64.63%.

III. DISCUSSION

A. Overall Loss Costs and Assigned Risk Rates

Conn. Gen. Stat. §38a-665 establishes the standards, methods and criteria for the making and use of commercial risk workers' compensation insurance rates in Connecticut. Conn. Gen. Stat. §38a-665 provides that no rates shall be excessive or inadequate, nor shall they be unfairly discriminatory. Conn. Gen. Stat. §38a-665(b) provides that consideration shall be given, to the extent possible; to past and prospective loss experience, reasonable margin for profit and contingencies, to past and prospective expenses both countrywide and those specially applicable to this state, to investment income earned or realized both from unearned premium and loss reserve funds, and other relevant factors, including judgment factors.

The overall cost levels are increasing for both the advisory loss costs and the assigned risk rates. The cost levels for this filing are based on Connecticut loss experience for policy years 2002 and 2003. The NCCI adjusts past losses to current conditions using adjustment methods which make the magnitude of the change very sensitive to their assumptions. Critical assumptions include those for trend, loss development and experience period. The assumptions included in these filings, including the econometric forecast values, were reviewed for reasonableness.

Based on the foregoing, it is recommended that the overall cost level change for advisory loss costs be approved as filed.

B. Assigned Risk Uncollectible Premium

NCCI is proposing a 2% provision for uncollectible premium for the assigned risk market. The filing states that the uncollectible premium totals approximately 4% of the net assigned risk premiums. The filing shows the five year average of uncollectible premiums to be 3.98% and the ten year average to be 4.24%. The combined impact on assigned risk rates is an increase of 2.1%.

It is recommended that the 2% provision for profit & contingencies be approved.

C. Minimum Premium Multiplier

NCCI is proposing to increase the current minimum premium multiplier of 245 to 300. Per NCCI the average weekly wage in 2004 was \$770 which translates to an annual salary in hundreds of \$400. They recommend that the minimum premium multiplier be increased until it nears the indicated level. The increase in the minimum premium multiplier is being phased in gradually.

It is recommended that the increase to 300 in the minimum premium multiplier be approved.

D. Maximum Minimum Premium

NCCI is proposing to increase the current maximum minimum premium from \$750 to \$1000. Their analysis indicated that 86.4% of the classes reached the current maximum premium of \$750.

When asked why they were not increasing the maximum minimum premium over a number of years their answer was:

"It would not be unreasonable to transition the increase to \$1000 over several filings. However, given that 1) the \$750 has not been updated for some time and 2) over 86% of classes in CT are capped at the current \$750 maximum, we feel that increasing to \$1000 in one filing would be more appropriate."

Some companies in the voluntary market may not increase their maximum minimum premium to \$1000. Many small employers, who are paying the maximum minimum premium, have limited access to companies in the voluntary market. These employers have no alternative and must resort to the assigned risk plan in order to comply with their statutory obligations. Increasing the maximum minimum premium to \$1000 in one filing would be an unreasonable burden for these employers.


It is recommended that the increase in the maximum minimum premium be denied.

IV. CONCLUSION

On the basis of the foregoing Facts, Discussion and Recommendations, it is recommended that the following orders be entered, to wit:

- A. The overall cost level changes for advisory loss costs and assigned risk rates filed by the National Council on Compensation Insurance ("NCCI") are approved as filed.
- B. Approve the proposed assigned risk rates.
- C. The proposed minimum premium multiplier of 300 is approved.
- D. The proposed increase in the maximum minimum premium is changed from a maximum of \$1000 to \$850.
- E. The proposed Workers Compensation Commission industrial classification assessment fund rate of 1.8% and "F" industrial classification assessment fund rate of 7.2% for voluntary market and assigned risk market insurers, for policies effective on or after January 1, 2006, are approved.
- F. For filings received prior to January 1, 2006, the thirty (30) day advance filing requirement set forth in Conn. Gen. Stat. §38a-676(b) is waived pursuant to that section to allow for the adoption of the advisory pure premium change effective January 1, 2006.

Dated at Hartford, Connecticut, the 28th of November, 2005.


Thomas J. Taggart
Hearing Officer